DEVON-PALMER OILS LTD.

(No Personal Liability)

ANNUAL REPORT · YEAR ENDED JANUARY 31, 1960

Head Office	*941 Somerset Building, Winnipeg, Manitoba*	
Operations Office	*320—7th Avenue S. W., Calgary, Alberta*	
District Office	*307 Brent Building, Regina, Saskatchewan*	
Toronto Office	*335 Bay Street, Toronto, Ontario.*	
Directors	J. B. Aird	M. E. Mermelstein
	D. S. Beatty	W. R. Newman
	H. Harriss	G. Weinschel
	R. Jeanty	Hon. Robert H. Winters
	G. L. Jennison	
Officers	Hon. Robert H. Winters, *Chairman of the Board and President*	
	J. B. Aird, *Vice-President*	J. D. White, *Assistant General Manager*
	R. Jeanty, *Vice-President*	G. Baker, *Secretary*
	G. S. Brant, *General Manager*	C. J. James, *Treasurer*
Registrar and Transfer Agent	Chartered Trust Company, *Toronto, Ontario*	
Co-transfer agents	The Toronto General Trusts Corporation, *Winnipeg, Manitoba*	
	Registrar and Transfer Company, *Jersey City, New Jersey*	
Co-registrar	Registrar and Transfer Company, *Jersey City, New Jersey*	
Auditors	Clarkson, Gordon & Co.	
Bankers	The Royal Bank of Canada	
Shares Listed	Toronto Stock Exchange	
	American Stock Exchange	

The information herein contained is for the existing shareholders exclusively and there is no offer to sell or inducement to buy within the meaning of the Canadian or United States Security Laws.

DEVON-PALMER OILS LTD.

(No Personal Liability)

Directors' Report to the Shareholders

Your Directors submit herewith the Company's Annual Report for the fiscal year ended January 31, 1960. Included with this report are the consolidated financial statements which are reported upon by the Company's auditors.

We are pleased to report that your Company experienced a record year with production averaging 2,864 barrels per day. This represents an increase of 28% over the previous year, and compares favourably with the overall industry increase of 11% for 1959. Pipeline gas deliveries also established a record high for the Company of an average of 8,210,000 cubic feet per day.

Gross revenue from oil and gas sales during the year was a record $2,176,534, reflecting the increase in production. Gross revenue from all sources, including eleven months of contract drilling operations, was $4,654,989. Net cash gain from operations (gross revenue less all cash expenses) was $1,357,837, from which had to be deducted non-cash expense items such as depreciation, depletion, amortization, leases surrendered or abandoned and bond discount amounting to $1,587,434. The resulting net loss for the year was $229,597. In addition to this loss, a loss of $468,197 arose on the sale of certain assets acquired in earlier years and on the disposal of a subsidiary company.

BRITISH COLUMBIA OIL LANDS LTD.

(Non-Personal Liability)

Continued exploration activity in the Fort Nelson area of Northeastern British Columbia has established the major significance of the Slave Point formation gas discoveries reported last year. Your Company is participating in this promising gas area both directly through part-

interest ownership of permit lands and indirectly through its holdings of 329,719 shares of British Columbia Oil Lands Ltd., representing 39% of the outstanding stock of that Company.

British Columbia Oil Lands Ltd. holds a 25% carried interest in 454,783 acres of permit lands, including Permit No. 311 on which the Gulf States' Kotcho Lake No. 3 Slave Point gas discovery was made. This well is reported to have a calculated open flow of 825,000,000 cubic feet per day based on a prolonged production test. Subsequent drilling in the Kotcho Lake area has resulted in two additional Slave Point gas wells, both of which are located within one mile of British Columbia Oil Lands Ltd.'s permit lands.

This associated company also holds carried interests of 12½% and 25% respectively in 1,474,437 acres and 92,160 acres of permit lands in the general area of Fort Nelson. In addition, it held at the year end a 37½% active working interest in Permit No. 1159, a 30,406 acre permit acquired last year and located only four miles south of the Petitot River gas wells. Devon-Palmer also participated in this permit acquisition and holds a 25% working interest in it. Since the end of the year, a farmout of Permit No. 1159 to a major operator in the area has been successfully negotiated. Initial drilling on the permit is scheduled for early in the next winter drilling season.

As a result of the above-mentioned activities, which are described in detail in the main body of this report, Devon-Palmer's investment in British Columbia Oil Lands Ltd. has appreciated substantially.

OKOTOKS GAS AND SULPHUR

In June, 1959, operations were commenced at the Okotoks Sulphur Project, undertaken jointly by Texas Gulf Sulphur Company Inc., Shell Oil Company of Canada Limited and Devon-Palmer. The gas gathering and processing facilities are now operating satisfactorily with current daily output at approximately 13,000,000 cubic feet of pipeline saleable gas and 350 long tons of sulphur. Sulphur sales started in April, 1960 and it is expected that the full output will find a market. The Company's share of these plant products are 5,250,000 cubic feet and 150 long tons per day respectively. At the year end, the Company's net remaining proven reserves for this Project were estimated to be 48,865,000,000 cubic feet of pipeline gas and 1,644,695 long tons of sulphur.

Your Company's investment in the Okotoks project was largely financed by the private placement of $3,500,000 principal amount of 5¾% First Mortgage Bonds due 1971, which are secured by the assets of the project pertaining to the Company. $3,000,000 principal amount of the bonds were placed during the fiscal year under review and the balance of $500,000 in February 1960.

SALES OF ASSETS

In the latter part of the year, your Company sold its seven drilling rigs which were being operated by a wholly-owned subsidiary Canamerican Drilling Ltd. (since renamed Devon-Palmer Drilling Ltd.) so that, as from January 1960, your Company ceased to be active in the contract drilling business.

In December, 1959, the Company's wholly-owned subsidiary, Devon-Palmer Oils (Delaware) Inc. was sold on cash terms. This subsidiary, with minor oil and gas production in Texas, had during the past few years represented a difficult administrative problem to the Company.

The effect of these two sales of major assets will be to concentrate the Company's efforts on exploration and development of oil and gas reserves in western Canada. At a time when the outlook for the western Canadian petroleum industry is becoming brighter this concentration of effort should result in the resources of your Company being utilized to the maximum advantage.

GENERAL

Your Company will endeavour to conduct its exploration and production activities so as to take maximum advantage of the recent export approvals of the National Energy Board.

Effective August 1, 1959, The Rio Tinto Mining Company of Canada Limited was engaged by the Company to provide senior executive, consultant and management services to your Company. Operations will continue to be directed from its Calgary office by its competent team of managerial and technical personnel headed by Mr. Glenn Brant as General Manager.

During the year the Board of Directors, with sincere regret, accepted the resignation of Mr. M. N. Palmer as President and Director of your Company. Mr. Palmer through his long association with the Company added much to its growth and development.

The Board of Directors wishes to convey its sincere appreciation of the continued loyal and valuable services during the past year of the Company's operational and executive personnel.

Additional operating and financial information is given in the general review that follows.

On behalf of the Board of Directors,

Chairman of the Board and President.

May 10, 1960.

DEVON-PALMER OILS LTD.

(No Personal Liability) *(Incorporated under the laws of Manitoba)*

AND ITS SUBSIDIARIES

consolidate

ASSETS

CURRENT:		
Cash		$ 27,253
Accounts and notes receivable		1,510,976
Inventories valued at the lower of cost or market —		
Sulphur	$ 515,014	
Materials and supplies	103,562	618,576
Prepaid expenses		30,541
Total current assets		$ 2,187,346
5½% NOTES RECEIVABLE (Secured) (Note 1)	1,055,918	
Less amount included with currrent assets	475,000	580,918
INVESTMENT IN SHARES OF OTHER COMPANIES — AT COST (quoted market value $5,727,337) (Note 2)		1,817,631
PROPERTY AND EQUIPMENT — AT COST less accumulated depreciation and depletion (Note 3)		14,178,749
OTHER:		
Bond and debenture discount less amounts written off	412,665	
Leasehold improvements less amounts written off	52,433	
Refundable deposits	42,142	507,240
		$19,271,884

alance sheet *January 31, 1960*

LIABILITIES

CURRENT:		
Bank overdraft		$ 61,060
Accounts payable and accrued charges		908,218
Income and other taxes payable		64,343
Current maturities of bank loans and long term debt		866,609
Total current liabilities		$ 1,900,230
BANK LOANS (Secured) (Note 4)	$ 2,570,335	
Less amount included with current liabilities	400,000	2,170,335
LONG TERM DEBT (Note 5)		3,153,386
SHAREHOLDERS' EQUITY (Notes 6 and 7):		
Capital —		
Authorized—15,000,000 shares par value 25c each		
Issued—12,293,525 shares	3,073,381	
Paid-in surplus	11,454,433	
Deficit (Statement 2)	(2,479,881)	12,047,933
		$19,271,884

Approved on behalf of the Board:

ROBERT H. WINTERS, Director.

ROGER JEANTY, Director.

See accompanying notes to consolidated financial statements

DEVON-PALMER OILS LTD.
(No Personal Liability)

AND ITS SUBSIDIARIES

consolidated statement of profit and loss

For The Year Ended January 31, 1960

Revenue:		
Contract drilling		$ 2,377,299
Oil and gas sales		2,176,524
Other		101,166
		4,654,989
Deduct:		
Contract drilling, production and general expenses	$ 2,842,717	
Carrying charges on undeveloped properties	115,136	
Exploration costs and dry holes	43,929	
Interest (including $140,433 applicable to long term debt)	295,370	3,297,152
Profit before depreciation, depletion and other write-offs		1,357,837
Deduct:		
Depreciation and depletion	1,366,336	
Oil and gas properties abandoned	172,419	
Bond and debenture discount written off	37,922	
Loss on disposal of fixed assets	10,757	1,587,434
Net loss for the year		$ 229,597

consolidated statement of deficit

For The Year Ended January 31, 1960

Balance, February 1, 1959		$ 1,808,618
Net loss for the year		229,597
Loss on disposal of subsidiaries (Note 1)	$ 468,197	
Less reduction in income taxes of prior years	26,531	441,666
Balance, January 31, 1960		$ 2,479,881

See accompanying notes to consolidated financial statements

notes to consolidated financial statements

JANUARY 31, 1960

1. Subsidiary companies

The consolidated financial statements include the accounts of Devon-Palmer Oils Ltd. and its wholly-owned subsidiaries, Canamerican Land and Exploration Company Limited and Canamerican Drilling Ltd.

Canamerican Drilling Ltd. ceased operations in January 1960 as a result of the sale by the Company of the drilling rigs and related equipment previously rented to the subsidiary. The total consideration was $1,080,918 of which $25,000 was received in cash. The balance, secured by a chattel mortgage on the equipment, is receivable in instalments totalling $475,000 during the year ended January 31, 1961 and thereafter in annual instalments of $193,639.

The Company's United States subsidiary, previously consolidated, was sold during the year. A Canadian subsidiary, not consolidated in prior years, was liquidated effective January 31, 1960 and its assets acquired by the Company at their book value. The losses on disposal of these subsidiaries (including the accumulated operating losses of the Canadian subsidiary) totalled $468,197 which amount is reflected in the consolidated statement of deficit.

2. Investment in shares of other companies

The Company's investment in shares of companies with quoted market values consists of the following:

	Number of Shares	Cost	Quoted Market values at Jan. 31, 1960
British Columbia Oil Lands Ltd.	329,319	$ 740,968	$5,104,344
Prairie Oil Royalties Company, Ltd.	251,270	1,071,586	542,743
Sundry		5,077	80,250
		$1,817,631	$5,727,337

The market values shown above are based on closing market prices at January 31, 1960. Because of the number of shares involved, the market values are not necessarily indicative of the amount that could be realized if these investments were sold.

3. Accounting policies and property and equipment

The practice of the companies is to capitalize lease costs and drilling and development expenditures on producing wells and to amortize such costs on the unit of production method based on estimated reserves of oil and gas. The carrying charges of undeveloped properties are charged to operations as incurred. Depreciation of plant, well and other equipment is provided on the straight line method at rates based on the estimated useful life of the assets.

Details of property and equipment at January 31, 1960 are as follows:

	Cost	Accumulated depreciation and depletion	Net book value
Producing oil and gas wells and properties	$ 8,699,859	$ 2,310,982	$ 6,388,877
Undeveloped oil and gas properties	2,500,778		2,500,778
Oil and gas well equipment	2,138,689	431,769	1,706,920
Sulphur plant	3,596,910	139,529	3,457,381
Buildings and other equipment	172,200	47,407	124,793
	$17,108,436	$ 2,929,687	$14,178,749

4. Bank loans

While the Company's bank loans are evidenced by demand notes, the bank has indicated it will accept repayment of a production loan aggregating $2,118,000 at January 31, 1960 in monthly instalments sufficient to retire the loan by October, 1963. The Company's other loan amounting to $452,335 at January 31, 1960 has been repaid since that date from the proceeds of the sale of an additional $500,000 principal amount of 5¾% First Mortgage Bonds.

5. Long term debt

Originally issued by predecessors and assumed by the Company —		
5½% Convertible Sinking Fund Debentures due April 1, 1963 (issued $500,000 less redeemed $275,500)		$ 224,500
5½% Convertible Sinking Fund Bonds, Series A, due March 1, 1964 (issued $1,100,000 less redeemed $687,600)		412,400
5¾% First Mortgage Bonds due April 1, 1971 (see Note 4)		3,000,000
		$ 3,636,900
Deduct:		
Instalments due within one year included with current liabilities	$ 466,609	
Cash for bond redemption on deposit with Trustee	16,905	483,514
		$ 3,153,386

6. Dividend restrictions

The deed of trust securing the 5¾% First Mortgage Bonds contains certain restrictions regarding the payment of dividends.

7. Share capital

During the year 16,958 shares of capital were issued for $17,806 cash on exercise of stock options and 125,000 shares were issued as commission on sale of First Mortgage Bonds. The par value of shares issued, $35,490 was credited to share capital account while the remainder of the issue price, $157,316 was credited to paid-in surplus.

530,334 shares of capital stock are reserved at January 31, 1960 as follows:

78,496 shares for conversion of outstanding 5½% Convertible Sinking Fund Debentures at $2.86 per share to maturity.

122,738 shares for conversion of outstanding 5½% Convertible Sinking Fund Bonds, Series A, at $3.36 per share to March 1, 1961 and at varying rates thereafter.

79,100 shares for options granted to officers and employees to purchase shares at $1.05 per share, exercisable over the period ending December 31, 1962.

250,000 shares for an option granted to The Rio Tinto Mining Company of Canada Limited to purchase shares at $1.20 per share, exercisable over the period ending July 31, 1961.

auditors' report

To the Shareholders of
DEVON-PALMER OILS LTD. *(No Personal Liability)*

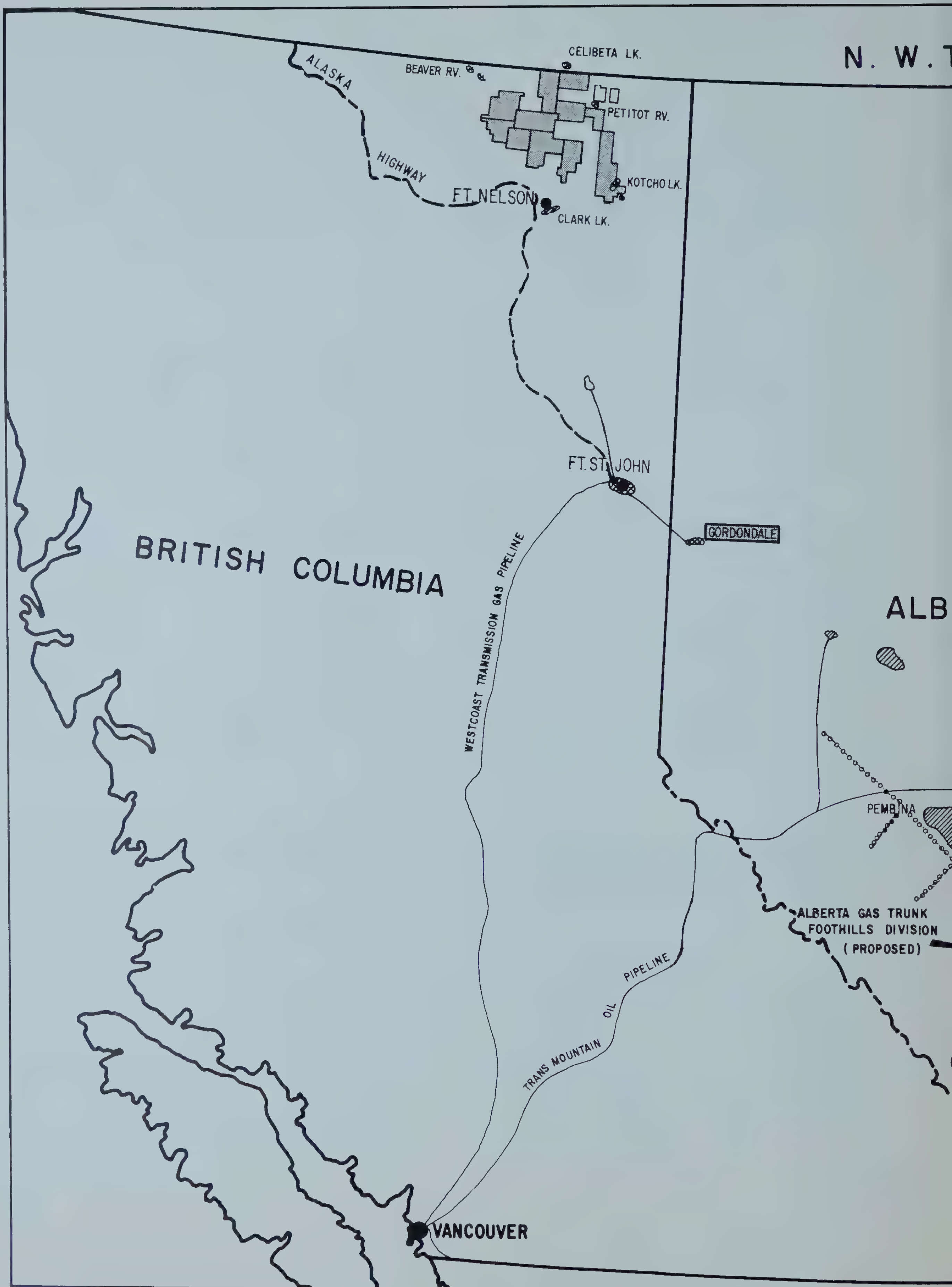
We have examined the consolidated balance sheet of Devon-Palmer Oils Ltd. and its subsidiaries at January 31, 1960 and the related consolidated statements of profit and loss and deficit for the year ended on that date and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of profit and loss and deficit are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Devon-Palmer Oils Ltd. and its subsidiaries at January 31, 1960 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

All the transactions that have come within our notice have been within the objects and powers of the companies, to the best of our information and belief.

Calgary, Alberta.
April 27, 1960.

CLARKSON, GORDON & CO.
Chartered Accountants.



N. W. T
CELIBETA LK.
BEAVER RV.
ALASKA
HIGHWAY
PETITOT RV.
KOTCHO LK.
FT. NELSON
CLARK LK.
FT. ST. JOHN
GORDONDALE
BRITISH COLUMBIA
WESTCOAST TRANSMISSION GAS PIPELINE
ALB
PEMBINA
ALBERTA GAS TRUNK
FOOTHILLS DIVISION
(PROPOSED)
TRANS MOUNTAIN OIL PIPELINE
VANCOUVER


AREAS AND FIELDS WHERE DEVON PALMER HAS AN INTEREST
OIL FIELD
GAS FIELD
ATHABASKA TAR SANDS
MANITOBA
SASKATCHEWAN
TA
ACHESON
EDMONTON
JO AR CAM
LEDUC-WOODBEND
CHAUVIN
RED DEER
PENHOLD
STETTLER
FENN-BIG VALLEY
ALBERTA GAS TRUNKLINE
INTERPROVINCIAL OIL PIPELINE
SASKATOON
E CALGARY
RY
OKOTOKS
TRANS-CANADA GAS PIPELINE
REGINA
WAPELLA
SWIFT CURRENT
ALBERTA GAS TRUNK LINE
MEDICINE HAT
LETHBRIDGE
RED COULEE
HASTINGS
MIDALE
CARNDUFF
WEYBURN
HITCHCOCK
GLEN EWEN
U.S.A.

development, production and reserves

DEVELOPMENT DRILLING

During the year under review the Company participated in the drilling of 15 (net 7.18) development wells in Alberta and Saskatchewan. This program resulted in an additional 5.01 net oil wells and 0.85 gas wells to the Company. The majority of this development activity was confined to the Midale field, Saskatchewan, where 4.0 net oil wells were completed. All of the Company's gas development operations were located in the Okotoks gas field, Alberta.

Additional development is planned for the Company's wholly-owned leases in the Midale field of Southern Saskatchewan during the coming year. It is also anticipated that further drilling will take place in the Pembina field, primarily in connection with pressure maintenance projects. Several proven locations in the Hitchcock field in which the Company has partial interests will also be drilled.

OIL AND GAS WELLS

As of January 31, 1960, the Company owned varying interests in 380 oil (80.02 net) and 28 gas (6.95 net) wells. In Alberta the Company's net working interest ownership comprised 49.07 oil and 6.95 gas wells. The remainder of the Company's net wells (30.95) were located in Saskatchewan. A summary of the number of wells by producing areas in western Canada is presented in a table included with this report. The locations of oil and gas producing areas where the Company has interests are illustrated on a map, also included.

It will be noted that although new wells have been drilled this year the Company's total net oil and gas well interests have remained substantially the same as for the previous year. This results principally from a reduction in number of oil and gas wells through the sale of the Company's producing properties in the United States of America.

Summary of Oil and Gas Wells (As of January 31, 1960)

I OIL

Province	Field	Total Wells		Net Wells	
ALBERTA	Acheson	8		3.04	
	Chauvin	30		26.00	
	Fenn-Big Valley	2		.16	
	Joarcam	8		1.92	
	Leduc-Woodbend	2		.30	
	Pembina	201		13.74	
	Red Coulee	6		3.50	
	Stettler	77	334	.41	49.07
SASKATCHEWAN	Benson	1		.12	
	Carnduff	5		2.50	
	Glen Ewen	4		2.62	
	Hastings	4		2.00	
	Midale	6		5.38	
	Parkman	1		.20	
	Wapella	2		1.50	
	Weyburn	21		16.38	
	Wildcat	2	46	.25	30.95
	TOTAL OIL		380		80.02

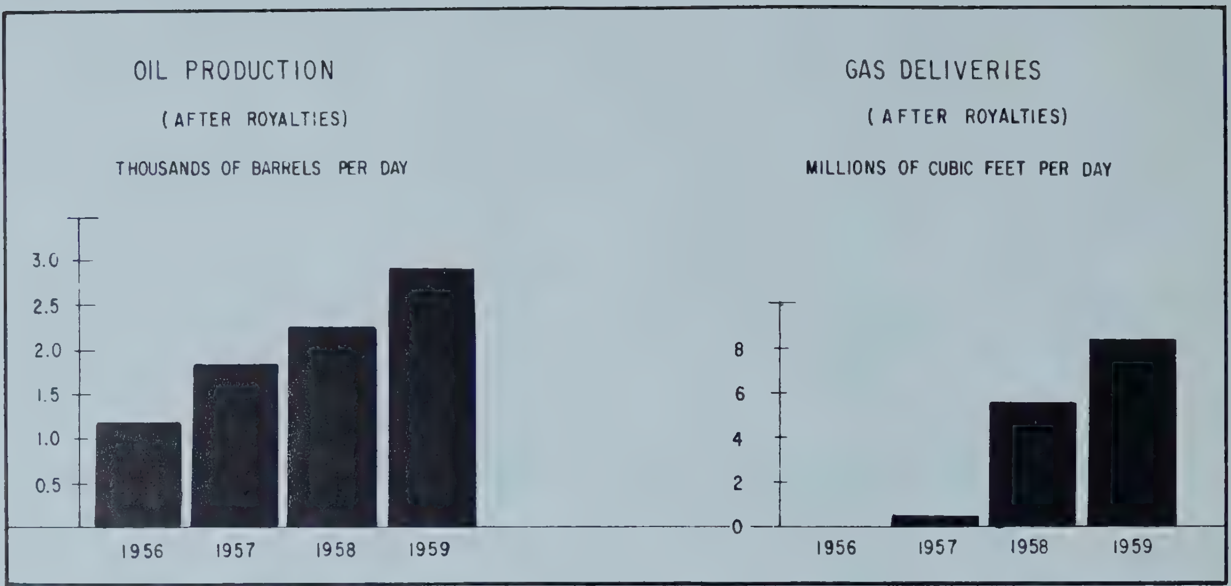
II GAS

Province	Field	Total Wells		Net Wells	
ALBERTA	Athabasca	1		.05	
	East Calgary	3		.50	
	Gordondale	15		3.75	
	Okotoks	6		2.55	
	Pembina	2		.02	
	Taber	1	28	.08	6.95
	TOTAL GAS		28		6.95
TOTAL OIL & GAS			408		86.97

OIL AND GAS PRODUCTION

During the year under review the Company produced an average of 2,864 net barrels of oil and 8,210,000 net cubic feet of gas per day. A comparison presented overleaf illustrates that record highs were established for both.

Lack of adequate markets has again resulted in the Company's production being considerably less than its potential. The Company, together with several Canadian Independents, was instrumental in generating new markets for Saskatchewan medium-gravity crude oil. As a result, during the latter half of 1959 the Company was able to produce at full capacity rates its Saskatchewan medium-gravity wells in the Weyburn and Midale fields. Prior to this, production from these wells had been restricted to less than 20% of the potential.



However, in December all producers in these fields elected to participate in the new market so established with the result that the Company's net production once again became curtailed, although not to the degree experienced early in the year. The Company's total average net daily production during January, 1960 was 2,232 barrels compared with the peak month for the year, August, when daily net production was 3,886 barrels per day.

While oil production will continue to be restricted, the market situation for Saskatchewan medium-gravity crude oil is likely to improve during the remainder of 1960 and thereby increase the Company's production income appreciably.

The marked increase in net pipeline gas deliveries results directly from the commencement of operations, in June, 1959, of the Okotoks Sulphur Plant at Okotoks, Alberta. The Gordondale field, in which the Company holds a 25% carried interest, continued to produce at the level established during the previous year. The economics of this latter field's operations were improved considerably by the increase in the price of the gas from 6¼c per Mcf. to 9¼c per Mcf., effective January 1, 1960.

OKOTOKS PROJECT

One of the year's most significant developments was the commencement of operations of the Okotoks Project at Okotoks, Alberta in June, 1959. This project was undertaken jointly by Texas Gulf Sulphur Company, Inc. and Devon-Palmer in 1957 under a "farmout agreement" with Shell Oil Company of Canada Limited, pursuant to the terms of which Texas Gulf and the Company each earned an initial 42½% interest in 39,863 acres of Shell leases in the Okotoks area of Southern Alberta. Shell Oil Company holds, in addition to its initial 15% interest, the right to acquire a further 10% interest in the project over the first five-year period of operations. Accordingly the Company's interest may be reduced to 37½% during that time. Prior to earning the above-mentioned interest the two Companies successfully formed a twenty-two section (14,080 acre) Unit Area in the Okotoks sour gas field and constructed a gas gathering system and sulphur recovery plant.

The facilities were designed to process 30,000,000 cubic feet of sour gas per day produced by the Okotoks field gas wells, recovering in the process 12,500,000 cubic feet of saleable pipeline gas and 370 long tons of elemental sulphur.

Total cost of the above-mentioned gathering and processing facilities and related field equipment, shared equally by Texas Gulf and Devon-Palmer, was approximately $10,000,000.

After operating at reduced rates during testing and final construction, the "System" reached very close to capacity in October, 1959. Current daily plant production is approximately 13,000,000 cubic feet of pipeline gas and 350 long tons of sulphur. The pipeline gas is being delivered to Canadian Western Natural Gas Company Limited under terms of a 20-year sales contract. Sulphur production is now being stockpiled at the plant site and sales have commenced. All sulphur sales are being arranged by Texas Gulf Sulphur Company, Inc., which is plant operator. Devon-Palmer operates the field and gas gathering facilities.

Two additional gas wells were completed in the Okotoks Unit during the past year with the result that there are now five wells on production. They have sufficient combined deliverability to satisfy the sulphur plant's immediate and near-future sour gas requirements. No further development drilling is therefore contemplated for the coming year.

EAST CALGARY

With impending gas export the operators in the east Calgary gas field are presently negotiating for the unitization of the Elkton and Crossfield reservoirs. The Elkton reservoir produces a gas rich in liquid hydrocarbons while the Crossfield formation contains a relatively dry sour gas comparable with that found at Okotoks. Gas gathering and processing facilities, capable of handling 80,000,000 cubic feet per day of Elkton and 70,000,000 cubic feet per day of Crossfield gas are to be constructed. The Company, by virtue of its land holdings within the proven limits of production, will have an interest in both Units and it is anticipated that it will also participate, along with other operators, in the construction and operation of the gas processing facilities. It is estimated that the Company's share of initial pipeline residue gas sales from the field will be approximately 2,000,000 cubic feet per day. This gas will be sold to Westcoast Transmission Company.

RESERVES

	JANUARY 31, 1960			JANUARY 31, 1959		
	Proven Drilled	Proven Undrilled	Total	Proven Drilled	Proven Undrilled	Total
Oil and N.G.L. (1,000 bbls.)	10,270	1,565	11,835	11,269	483	11,752
Pipeline Gas (MMcf.)	74,759	29,418	104,177	65,868	57,496	123,364
Sulphur (1,000 long tons)	1,662	332	1,994	1,665	976	2,641

The Company's net remaining proven reserves of oil and natural gas liquids, pipeline gas and sulphur as of January 31, 1960, together with the comparable figures for the previous year are presented above. Both sets of reserves figures were calculated by an independent firm of consultants.

Proven oil and natural gas liquids reserves remain approximately at the same level despite the production of 1,045,000 barrels of oil, a sale of producing properties in the United States with 474,000 barrels of proven net oil reserves and a reduction in primary recoverable oil reserves in the Chauvin field of approximately 950,000 barrels. Addition of reserves by development and exploration activities in Saskatchewan and initiation of pressure maintenance operations on leases in the Pembina field offset to a great extent the above reductions.

The Company's proven gas reserves have been decreased primarily by a reduction of undrilled reserves in the Gordondale and Okotoks fields. As the result of the reduction in Okotoks gas reserves the Company's undrilled sulphur reserves were also reduced as shown.

exploration and land

EXPLORATORY DRILLING

During the period under review the Company participated in the drilling of twelve (net 1.76) exploratory wells, two (net 0.58) of which were located in Alberta and the remainder in Saskatchewan. The results of this program were to add 0.25 net oil wells (two Saskatchewan discoveries) and 0.33 net gas wells to the Company. The gas discovery was located in the East Calgary area, Alberta.

In previous years the Company's wildcat drilling activity has been for the major part confined to the Province of Saskatchewan. The shallow drilling prospects found there coupled with the Company's substantial land holdings in favourable areas made it desirable so to concentrate its efforts. With the decline in discovery rate being recorded in Saskatchewan, the Company plans to expand its exploratory activity into central and south central Alberta. For the most part this will be done through "farmouts" and, to this end, a well in the Penhold area on a farmout from a major company is being drilled early in the new year. The Company has a 25% interest in this venture.

LAND ACTIVITY

In March, 1959, the Company participated in a successful bid on a 30,406-acre permit in Northeastern British Columbia at a Crown land sale held by that Province. The Company holds a 25% working interest in this permit, No. 1159, which is favourably located with respect to Slave Point formation gas developments in that area. A detailed discussion of this permit acquisition is presented elsewhere in this report under the section dealing with British Columbia Oil Lands Ltd., an affiliated Company which also participated in the successful bid.

The Company's land holdings are summarized in a table included in this report. Its current net acreage holdings of approximately 176,000 acres are considerably reduced from that of the previous year. A major portion of this reduction results from the sale of the Company's United States subsidiary which held 101,500 acres of lease and option lands in Alaska and 46,190 acres of general mining leases in New Mexico. Further reductions were due to the surrender of 40,000 acres of freehold and crown leases in Saskatchewan and Alberta and the conversion of a drilling reservation (4,500 acres) in the East Calgary area of Alberta.

As in previous years, an intensive evaluation of the Company's undeveloped land holdings continued with a view to dropping all leases that were no longer considered to have sufficient geological merit to justify the expense of maintaining them in good standing. Wherever the opportunity presented itself the Company acquired additional leases located on favorable geological trends. Such acquisitions were of a minor nature, however, being made mostly in connection with developing farmout exploratory projects.

SUBSIDIARIES AND ASSOCIATED COMPANIES

In December, 1959 the Company sold its wholly-owned United States subsidiary, Devon-Palmer Oils (Delaware) Inc. on cash terms. This subsidiary held interests in oil and gas properties in Texas, general mining leases in New Mexico and lease and option lands in Alaska. It had become impractical to administer the oil and gas properties in Texas from the Calgary operations office. The minor nature of the operation did not warrant the maintenance of a district office and staff in Texas which was necessary for efficient operations there.

Over the past few years the decline of development and exploratory drilling in Western Canada has resulted in a surplus of drilling rigs and intense competition for available contracts. Drilling profits of the Company's wholly-owned subsidiary Canamerican Drilling Ltd. declined accordingly. Furthermore, six of the Company's seven contract drilling rigs were located in Saskatchewan where there has been a marked reduction in activity. In addition, the company's ability to compete for wildcat and strategic development contracts was somewhat hampered by the reluctance on the part of major exploration companies to utilize the services of a drilling firm directly affiliated with a competing exploration company.

In the latter part of 1959, the Company received a satisfactory offer for its seven drilling rigs and ancilliary equipment. The Board of Directors believed that it was appropriate for the Company to withdraw from contract drilling activities, and therefore accepted the offer. As from January 1960, the Company ceased to be engaged in contract drilling operations and its wholly-owned subsidiary, under which such operations had been conducted, subsequently changed its name from Canamerican Drilling Ltd. to Devon-Palmer Drilling Ltd.

The Company's subsidiary company, Canamerican Land and Exploration Company Ltd., changed its name to Devon-Palmer Land and Exploration Company Limited subsequent to the year's end.

The Company's remaining subsidiary, Alberta Minerals and Oils Ltd. was in the process of being wound up at the year end and its assets have been transferred to Devon-Palmer Oils Ltd. and Devon-Palmer Land and Exploration Company Limited.

It is anticipated that the reduction in subsidiaries will enable economies to be effected in the administration of the affairs of the Company.

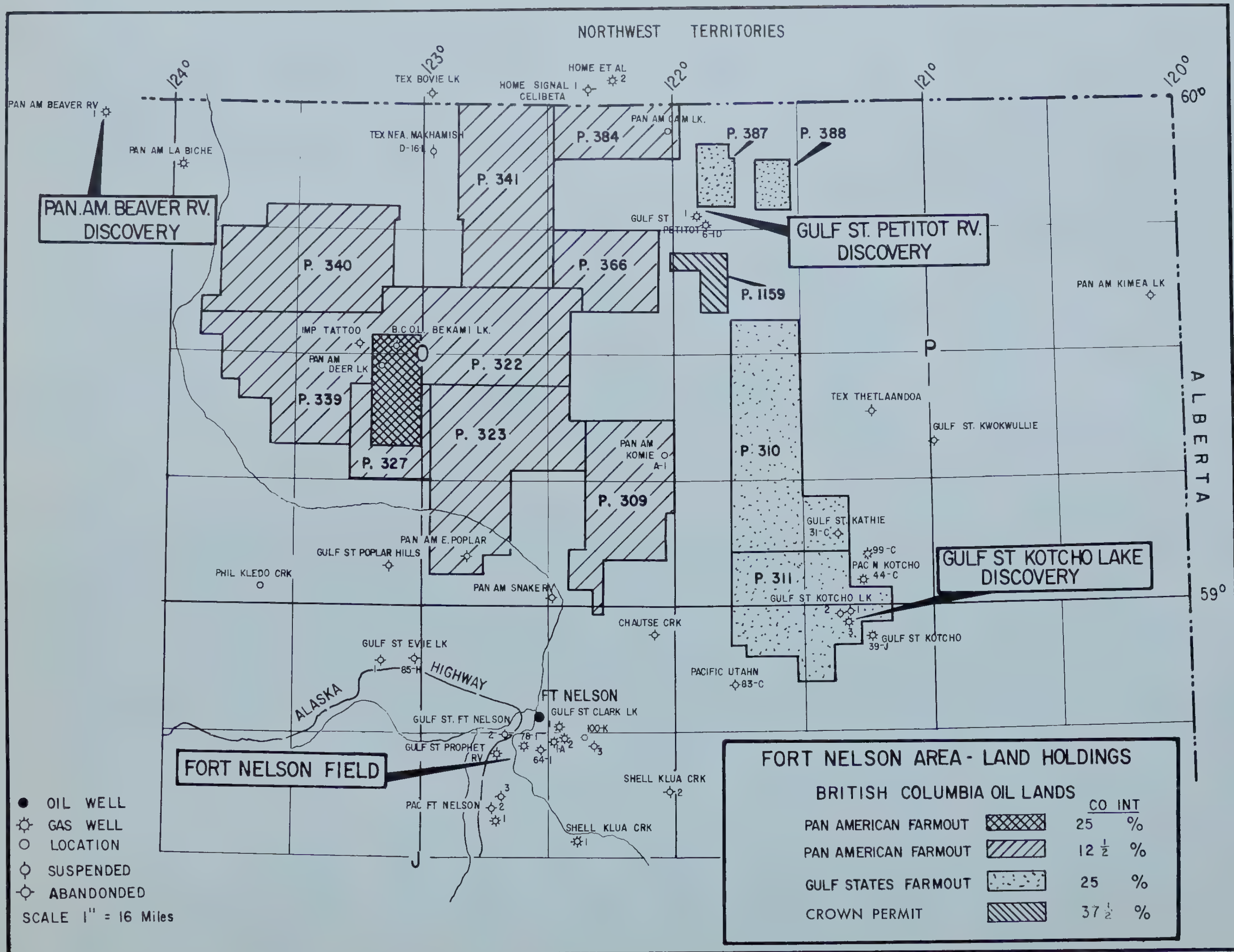
BRITISH COLUMBIA OIL LANDS LTD.

(Non-Personal Liability)

During the period under review exploratory drilling activity Northeastern British Columbia considerably enhanced the Company's investment in British Columbia Oil Lands Ltd. consisting of 329,719 common shares or 39% of the outstanding capital.

British Columbia Oil Lands Ltd. holds the following interests in the Fort Nelson area of Northeastern British Columbia.

Area Acres	B.C.O.L. Interest	Disposition of Land
454,783	25% carried	Farmed to Western Natural Gas Company, Inc. (Formerly Gulf States Oil Company of Canada) El Paso Natural Gas Company and General American Oil Company.
1,474,437	12½% carried	Farmed to Pan American Petroleum Corporation
92,160	25% carried	Farmed to Pan American Petroleum Corporation
30,406	37½% working	


NORTHWEST TERRITORIES
ALBERTA
124°
123°
122°
121°
120°
60°
59°
PAN.AM. BEAVER RV. DISCOVERY
GULF ST. PETITOT RV. DISCOVERY
GULF ST KOTCHO LAKE DISCOVERY
FORT NELSON FIELD
PAN AM BEAVER RV 1
PAN AM LA BICHE
TEX BOVIE LK
TEX NFA. MAKHAMISH D-161
HOME SIGNAL I CELIBETA
HOME ET AL 2
PAN AM CAM LK.
GULF ST PETITOT 1 6-10
PAN AM KIMEA LK
P. 340
P. 341
P. 384
P. 387
P. 388
P. 366
P. 1159
P. 322
P. 339
P. 323
P. 327
P. 309
P. 310
P. 311
IMP TATTOO
B.C.OIL BEKAMI LK.
PAN AM DEER LK
PAN AM KOMIE A-1
TEX THETLAANDOA
GULF ST. KWOKWULLIE
GULF ST. KATHIE 31-C
99-C
PAC N KOTCHO 44-C
GULF ST KOTCHO LK
GULF ST KOTCHO 39-J
PAN AM E. POPLAR
GULF ST POPLAR HILLS
PHIL KLEDO CRK
PAN AM SNAKE RV
CHAUTSE CRK
PACIFIC UTAHN 83-C
GULF ST EVIE LK
85-H
ALASKA HIGHWAY
FT NELSON
GULF ST CLARK LK
100-K
GULF ST. FT NELSON
GULF ST PROPHET RV
78
64-1
1-A
PAC FT NELSON
SHELL KLUA CRK
P
J
OIL WELL
GAS WELL
LOCATION
SUSPENDED
ABANDONED
SCALE 1" = 16 Miles
FORT NELSON AREA - LAND HOLDINGS
BRITISH COLUMBIA OIL LANDS
CO INT
PAN AMERICAN FARMOUT 25 %
PAN AMERICAN FARMOUT 12 1/2 %
GULF STATES FARMOUT 25 %
CROWN PERMIT 37 1/2 %

Drilling in this area during the 1958-59 drilling season resulted in several Slave Point gas discoveries of major significance. One of these discoveries, Gulf States Kotcho Lake No. 3, is located on a 176,729 acre permit (No. 311) in which B.C.O.L. has a 25% carried interest. Another major Slave Point gas find, Gulf States Petitot River No. 1, is located within one mile of Permit No. 387 in which B.C.O.L. also has a 25% carried interest. The location of these two discovery wells, together with other important wells drilled in this area, are shown on a map included with this report.

Both of the above-mentioned discovery wells are known to be good gas producers. The Kotcho Lake No. 3 well is reported by the operator to have a calculated minimum absolute open flow of 825,000,000 cubic feet per day, as determined from recent prolonged production test data. The Petitot River No. 1 well's absolute open flow potential was reported at the same time to be 150 million cubic feet per day. The two wells therefore rank highly among the known gas wells on the North American continent.

In March, 1959, B.C.O.L. participated, together with three partners, in a successful bid on a 30,406 acre Petroleum and Natural Gas Permit in a British Columbia Government land sale. This Permit, No. 1159, is located favorably for Slave Point gas development being situated between the Petitot River No. 1 and Kotcho Lake No. 3 and only six miles south of the former. The location of this permit, in which B.C.O.L. acquired a 37½% working interest, with respect to these and other Slave Point gas developments is illustrated on a map herein contained.

Subsequent development in the Petitot River and Kotcho Lake areas has confirmed the major significance of these two discoveries. At Petitot River a follow-up well, Gulf States Petitot River No. 2, located two miles south of the discovery and four miles north of Permit No. 1159 referred to above, was successfully completed as a Slave Point gas well with an absolute open flow potential of 185 million cubic feet per day. This, of course, greatly improved the value of Permit No. 1159, and at the year end consideration was being given to attractive farmout offers received from several major companies.

At Kotcho Lake two additional wells were successfully completed as Slave Point gas wells. The Gulf States Kotcho Lake d-39-J well, located 4½ miles southeast of the Kotcho Lake No. 3 discovery well and approximately one mile south of Permit No. 311 (25% carried interest), was completed with an absolute open flow of 100 million cubic feet per day. Pacific Petroleums also completed its North Kotcho 0-44-C within one mile of Permit No. 311 as a potential Slave Point gas well. The absolute open flow data are not available on this well, but it is understood it has a potential comparable to that of the Kotcho Lake d-39-J well.

The completion of these wells is encouraging for ultimate development of a relatively large productive area on the acreage lands of B.C.O.L. However, insufficient drilling has been done in the area to define adequately the productive limits and therefore meaningful and reliable estimates of gas reserves are not possible at this time.

At the year end four wells, all slated to test the Slave Point horizon, were being drilled on B.C.O.L. permits, while another was rigging up preparatory to spudding in. In addition, three wells were being drilled within four miles of B.C.O.L.'s interest permits. It is expected that the results of this drilling activity will further enhance the value of B.C.O.L. land holdings in this area. The locations of these wells are also shown on the aforementioned map of the Fort Nelson area.

In addition to its holdings in the Fort Nelson area, B.C.O.L. holds a 50% interest in approximately 200,000 acres of lease and optioned lands in Alaska. A geophysical programme has been carried out on part of this acreage and it is anticipated that exploratory drilling will be conducted within the next year.

PRAIRIE OIL ROYALTIES COMPANY, LTD.

The Company has a 14.1% (251,270 shares) interest in Prairie Oil Royalties Company, Ltd. and provides administrative and technical services for it. Prairie holds varying royalty interests in several major fields in Saskatchewan and, as of June 30, 1959, its net oil reserves were estimated to be 1,158,284 barrels. In addition to its varied royalty interests in Saskatchewan, Prairie has 171,561 shares (20% of the outstanding stock) of British Columbia Oil Lands Ltd.

MANAGEMENT AND STAFF

Commencing August 1, 1959 The Rio Tinto Mining Company of Canada Limited provides all senior management, consultant and administrative services for the Company.

The operations of the Company continue to be managed from its offices in Calgary, Alberta.

The Company's staff was reduced from approximately 200 reported last year to 60 at the year-end. This reduction resulted from the transfer of drilling company personnel in connection with the sale of the Company's drilling equipment. A reduction in office staff during the year was offset by the additional staff engaged to operate the Okotoks Unit gas wells and gathering system. The Company continues to operate with a minimum of staff commensurate with efficient operation and management of its properties. A constant effort is being made to reduce the Company's overhead and administrative costs.

FINANCIAL

Included with and forming an integral part of this report are the audited statements for the fiscal year ended January 31, 1960, together with the report of the Company's auditors.

DEVON-PALMER OILS LTD. *(No Personal Liability)*

LAND AND MINERAL HOLDINGS as at January 31st, 1960

	Gross Acres	Net Acres
Petroleum and Natural Gas Leases and Permits	479,874.35	175,037.52
Minerals and Royalties	19,900.81	1,174.27
Total	499,775.16	176,211.79
The above Properties are broken down as follows:		
Undeveloped	379,230.27	148,731.90
Developed	24,952.51	2,704.33
Producing	95,592.38	24,775.56
Total	499,775.16	176,211.79

These Properties are located as follows:

PETROLEUM AND NATURAL GAS LEASES AND PERMITS

UNDEVELOPED	Gross Acres	Net Acres
Manitoba	28,512.87	14,256.43
Saskatchewan	136,654.58	90,611.89
Alberta	163,560.82	33,846.78
British Columbia	30,406.00	7,601.50
Montana	1,308.00	1,308.00
Total	360,442.27	147,624.60
DEVELOPED		
Alberta (Gas Properties)	24,952.51	2,704.33
Total	24,952.51	2,704.33
PRODUCING		
Saskatchewan	6,102.09	3,888.42
Alberta	88,377.48	20,820.17
Total	94,479.57	24,708.59

MINERALS AND ROYALTIES

UNDEVELOPED		
Saskatchewan	1,120.00	485.60
Alberta	17,668.00	621.70
Total	18,788.00	1,107.30
PRODUCING		
Saskatchewan	1,112.81	66.97
Total	1,112.81	66.97

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